

Comments and Recommendations of the Small Water/Sewer Companies – PSC Annual Assessment

Beginning in 2008, the Missouri Public Service Commission assessments have increased over 130% for regulated sewer utility companies. The rate of increase the past couple of years has caused small companies to take extraordinary financial steps to try and pay the assessments including filing unanticipated rate cases. This rate of increase for PSC assessments has also raised companies concern as to the “value received” from the assessment when many companies and government entities are cutting budgets and expenses to remain viable. Moreover, recent small sewer companies falling into receivership might indicate a change in philosophy for the financial evaluation of regulated sewer service providers.

Despite a very positive and productive conversation with Staff and the OPC on this issue, the industry does not fully understand why there has been such a dramatic increase in the sewer annual assessment. We understand that there are very few regulated sewer utilities meaning fewer customers to spread the costs. However, that does not explain why the dramatic increase? During our conversations with Staff, we have been informed that the increase was likely due to the increase in the number of receiverships that had occurred in the last couple of years. We were also informed that the problem could be solved by quite simply “stop filing rate cases.”

To compound the financial impact of the large increases in annual assessments, most small companies do not file rate cases annually due to the onerous process and the expense of the rate case. Despite the small water and wastewater regulations, the process is no less expensive or time consuming than a regular filing causing a disincentive for companies to make timely and prudent filings. However, these year over year increases of the PSC assessment have left the companies with little choice but reinstate the rate case process, which causes additional burdens on the companies, the PSC staff, and the ratepayers.

Additionally, the assessment notice to the companies is communicated in June with the 1st quarterly payment due in July, leaving the company less than four weeks to make the 1st payment. This leaves very little time for small companies to obtain the financial resources to pay the assessment. Furthermore, if a

company files a small company rate case to try and cover the increased assessment expense, the rate case process can take up to 150 days or more depending on the disposition and settlement of the case. During the rate case process additional quarterly payments for the annual assessment have come due without revenue relief.

To be clear, over 11% of every wastewater customer bill is a result of the PSC assessment. In reviewing the assessment across the regulated utility industries, the PSC assessment for the sewer utility group is a significantly higher percentage as compared to other utility industries (see table 1 below).

Table 1 - Summary of Cost Allocated to Utility Industries

Utility / Cost Group	Fiscal Year 2010 Assessment	Assessment % to Group Revenue
Electric	\$7,498,997	0.1754%
Gas	\$4,291,111	0.2012%
Heating	\$330,974	0.9423%
Water	\$1,601,784	0.8363%
Sewer	\$571,315	11.2241%
Telephone	\$2,762,167	0.1336%
Total	\$17,056,348	

For comparison, the sewer utilities are paying assessments (as a percentage of revenue) that are:

- **64 times electric assessments**
- **56 times gas assessments**
- **12 times heating assessments**
- **13 times water assessments**
- **84 times telephone assessments**

Again, the impact of this assessment allocation to customers is that 11.22% of the total sewer bill goes solely to the PSC, whereas less than 1% of the total of all other regulated utility customers' bill goes to the PSC assessment with electric, gas and telephone being assessed at less than ¼ of 1%. The Commission should be aware that when customers voice concerns about the increase in their wastewater bill, 11.22% of the bill is related to the assessment fee.

Recommendations:

While the PSC staff believe that changes to the assessment allocation is a legislative matter, the small water/sewer companies wanted the Commission to be aware of the assessment issue, the large percentage increases, and the inequity across the industries. The companies urge the Commission to investigate and implement the following recommendations to assist the industry in maintaining their financial viability and continue to effectively serve our customers:

1. Pass thru: Companies should be allowed to pass through the PSC assessment fee to customers without filing a rate case.
2. Postponement of 1st payment: Delay the 1st quarterly payment to allow for company rate case filings.
3. Investigate the root cause of the increase in the Sewer Assessment Fee: The Commission should review the hours and expenses charged to the sewer utility industry including all departments within the Commission. The audit should also address the hours allocated to PSC receivership dockets and publish its findings. If the receivership issue is the root cause of the increase, the industry and Commission should propose joint legislation to change the allocation methodology so that current customers do not continue to bear the burden of paying for failed companies.
4. Cap the percentage increase per year: Limit the amount of fluctuation of increase.

While the above ideas and suggestions are not an all inclusive list, the companies urge the Commission to address the dramatic inequities across the utility industries and the large percentage increases of annual assessments for the sewer group. The small companies respectfully request an oral presentation and dialogue with the Commission to openly discuss their concerns and collaborate on potentially agreeable solutions.